

Wheat Shipments Under U.S. Overseas Food Donation Programs Will Rise in Fiscal 1999

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Abstract: Exports play an important role in the health of the U.S. wheat economy. More than 40 percent of the wheat grown in the United States has been exported in the 1990's, down slightly from previous decades. Export programs facilitated over 70 percent of U.S. wheat exports during fiscal years 1986-95. During fiscal 1996-98, export program shipments accounted for just under 25 percent of U.S. wheat exports as high world wheat prices in 1996 and 1997 halted shipments under the chief U.S. export price subsidy program, the Export Enhancement Program (EEP). Increasing donations to meet humanitarian needs will boost U.S. food aid shipments in fiscal 1999 and will account for a larger share of U.S. wheat exports.

Keywords: Export programs, export credit, donations, food aid

Introduction

The United States operates a variety of programs to assist agricultural exports. Export credit guarantees and export price subsidies facilitate commercial exports. U.S. food assistance programs donate agricultural products directly to individual countries with food aid needs through private voluntary organizations or through the World Food Program and permit long-term credit sales of agricultural commodities to countries on a government-to-government basis and to nongovernmental organizations in recipient countries.

International Food Assistance

The United States provides food assistance through Public Law 480 (Food for Peace) Titles I, II, and III and through section 416(b) of the Agricultural Act of 1949, as amended, and the Food for Progress Program. Title I of PL 480 finances sales of commodities under long-term credit arrangements to developing countries with insufficient foreign exchange. Title II provides for donations for emergency food relief and non-emergency humanitarian assistance to international organizations such as the World Food Program and to recipient governments. Title III grants food assistance to support development programs in least developed countries. Section 416(b) of the Agricultural Act of 1949, as amended, provides for donations of CCC-owned surplus commodities to developing countries, and Food for Progress authorizes the donation or sale of food aid commodities to assist developing countries that are implementing market-oriented policy reform.

U.S. food aid shipments of wheat declined from a high of 5.3 million tons in 1986 to 1.1 million tons in 1997 when

tight U.S. supplies and high world wheat prices reduced the volume of wheat donations. For the 1998 fiscal year, planned food aid shipments rose to 1.7 million tons, but planned wheat donations and concessional sales for fiscal 1999 could double those of fiscal 1998. In 1998, the economic and financial turmoil in Asian and NIS countries, natural disasters, and the failure of the Russian 1998 grain crop boosted global food aid needs while large U.S. crops made ample supplies available for donation to needy countries. In July 1998, the President announced a separate food aid initiative to make available U.S. wheat and wheat products. The wheat and wheat products are being purchased by the CCC under its surplus removal authority contained in the CCC Charter Act and donated under section 416(b) of the Agricultural Act of 1949, as amended.

While the initial announcement covered 2.5 million tons, other needs have arisen since the announcement. As of March 12, 1999, 5.1 million tons of wheat and wheat products had been allocated under the section 416(b) authority. Of the total, 3.4 million tons of wheat will be made available to 19 countries in government-to-government donations. Approximately 1.1 million tons of wheat and wheat products will go to the United Nations' World Food Program; and 482,441 tons of wheat will be made available to private voluntary organizations for projects in the NIS, Bosnia, Central American and Caribbean countries, Indonesia, and Kenya. Wheat flour and bulgur wheat have been allocated to 15 countries.

The Russian Federation will receive 1.5 million tons of U.S. wheat under the President's food aid initiative, or almost one-third of the government-to-government allocations. Bangladesh, Pakistan, and Indonesia are each due to receive 200,000-600,000 tons, and other allocations will help hun-

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gry people in Africa, Asia, the Central American countries devastated by Hurricane Mitch, other former Soviet republics, and Jordan.

Many of the wheat recipients under the President's food aid initiative purchased wheat from the United States and other exporters on commercial terms in the past, but major financial crises and natural disasters this year reduced their ability to purchase wheat commercially. In fiscal 1999, 3.3 million tons of wheat are expected to be shipped under food aid programs. This represents 12 percent of projected wheat exports for fiscal 1999, up from 5-7 percent during fiscal 1995-98.

Export Credit Guarantees

Export credit guarantee programs guarantee repayment of credit extended to eligible banks that issue letters of credit to importers on behalf of exporters of U.S. agricultural products. The programs help importers facing foreign exchange constraints to purchase U.S. agricultural products. The Export Credit Guarantee Program (GSM-102) guarantees loans of more than 6 months to 3 years. The Intermediate Export Credit Guarantee Program (GSM-103) guarantees loans of more than 3 to no more than 10 years. There were no wheat shipments in fiscal 1998 under two recently implemented export credit guarantee programs, the Supplier Credit Guarantee Program and the Facilities Guarantee Program.

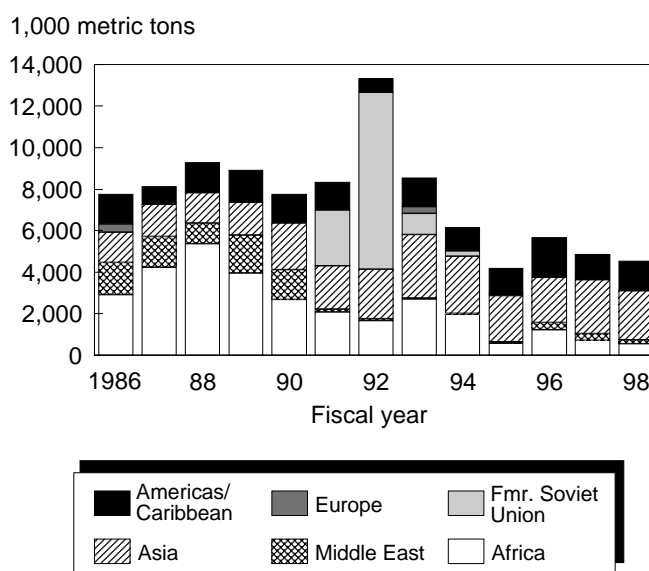
During fiscal 1986-98, importers used export credit guarantees to procure between 4 and 13 million tons of U.S. wheat annually (an average of 24 percent of annual wheat exports). In recent years, large shares of credit guarantee shipments have gone to Mexico and Pakistan. The Republic of South Korea began to reduce its credit guarantee imports in the mid-1990's, but following the Asian financial crisis, it once again became a large user of export credit guarantees. South Korean importers used GSM-102 guarantees to purchase 764,000 tons of U.S. wheat in fiscal 1998. Export credit guarantee shipments of wheat by destination region during fiscal 1986-98 are illustrated in fig. B-1.

The major importers' use of U.S. export credit guarantee programs has changed over the years. The North African countries of Algeria, Egypt, Morocco, and Tunisia imported between 2.5 and 5.5 million tons of wheat each year from 1986 through 1990, but reduced their wheat imports under U.S. credit guarantee programs to 1.2 million tons or less since 1995. The former Soviet Union and Iraq also made extensive use of export credit guarantees in specific years. Iraq imported between 600,000 and 1.1 billion tons of wheat under GSM-102 between 1986 and 1990, and imports under GSM-102 by the former Soviet Union topped 8.5 million tons in 1992.

During fiscal 1986-95, the United States developed a financing package that combined EEP price subsidies and export

Figure B-1

Export Credit Guarantee Shipments of Wheat by Destination Region



Source: Based on FAS Export Credit Division shipment data.

credit guarantees for wheat importers in the North African countries, the former Soviet Union, and other countries. As much as 10 million tons of wheat were shipped each year under this combination of programs.

For fiscal 1999, it is not clear how much wheat will be shipped under export credit guarantee programs. Mexican and Andean importers continue to use export credit guarantees to purchase large quantities. However, some of the larger users of credit guarantees in past years either no longer make much use of the export credit guarantee programs or can no longer afford to purchase wheat commercially (the Russian Federation and other New Independent States - NIS). For instance, the Egyptian government has restricted its use of U.S. export credit guarantees, but shipments under the program continue on a reduced scale for sales to a private flour mill. Importers in other countries such as Algeria and Morocco have turned increasingly to the price and credit packages of the European Union.

Export Subsidies

The EEP has been the United States' chief export subsidy program. The EEP was initiated in May 1985 under the CCC Charter Act to help U.S. exporters meet competitors' subsidized prices in targeted markets. The program was later authorized by the 1985 and 1990 Farm Acts, the Uruguay Round Agreements on Agriculture, and, most recently, by the 1996 Federal Agriculture Improvement and Reform (FAIR) Act. Under the EEP, exporters are awarded cash payments on a bid basis, enabling them to sell wheat to specified countries at competitive prices.

Over one-half of U.S. wheat exports were facilitated by the EEP from fiscal 1986 through fiscal 1995 (fig. B-2). Over the 10-year period, USDA awarded \$5.5 billion in EEP bonuses to exporters for wheat sales totaling 168 million tons. U.S. wheat was sold under the program to more than 40 countries, although 41 percent went to the People's Republic of China and the former Soviet Union. Algeria and Egypt accounted for another 21 percent of EEP sales.

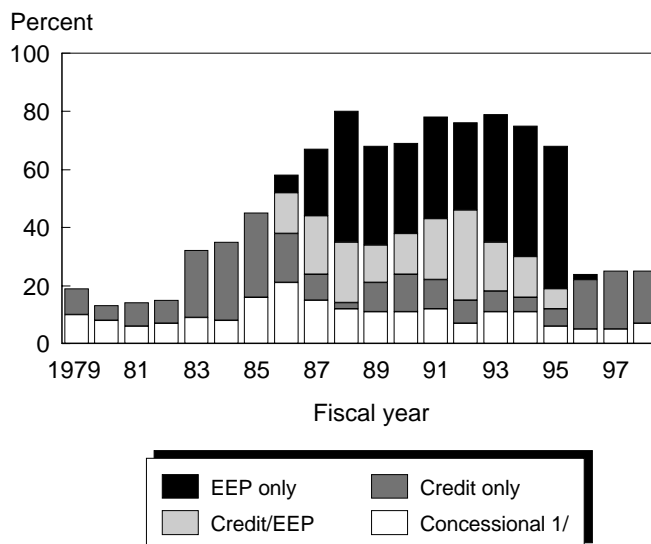
The 1994 Uruguay Round Agreement on Agriculture (URAA) imposed meaningful disciplines on agricultural export subsidies for the first time. In the 1996 FAIR Act, Congress reduced the annual funding levels for the EEP below the URAA caps for fiscal 1996-99. Subsequent appropriation bills further reduced funding for the EEP. The absence of EEP sales for wheat from 1996 through 1998 reflects higher world grain prices in 1996 and 1997.

Outlook for U.S. Wheat Export Programs

With global rules on export subsidies in place and many countries calling for the elimination of such policy tools, it is unlikely that U.S. export subsidies will support the large shares of U.S. wheat exports in the future that they did in the late 1980's and early 1990's. However, for fiscal 1999, food donations will increase in importance among export programs.

Figure B-2

U.S. Wheat Exports, by Program



1/ Concessional = PL 480 + Section 416(b) + Food for Progress shipments.

Source: Based on FAS Export Credit Division shipment data.